

CA1  
Z1  
-69P133

Incomes commission

des prix et des revenus

General publications

(2)

November 16, 1970

# AVERAGE PRICES IN FEDERAL GOVERNMENT EATING FACILITIES

Prices and Incomes Commission

John H. Young  
Chairman

Hertram G. Barrow  
Commissioner

George E. Freeman  
Commissioner

George V. Haythorne  
Commissioner

15  
22781-



133

Prices and incomes commission

General publications

(2)

Commission des prix et des revenus

November 16, 1970

[G-19] BEVERAGE PRICES IN FEDERAL GOVERNMENT EATING FACILITIES

Prices and Incomes Commission

John H. Young  
Chairman

Bertram G. Barrow  
Commissioner

George E. Freeman  
Commissioner

George V. Haythorne  
Commissioner



## FOREWORD

Following discussions with representatives of the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Stability to obtain a consensus on a program of price restraint. Those present at the conference, held in Ottawa on Feb. 9-10, indicated that, in their view, Canadian business firms would be willing to exercise a meaningful degree of restraint in their pricing policies in 1970. There was broad agreement that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and would ensure that price increases were clearly less than the amount needed to cover increases in costs.

It was agreed that the Commission would keep export industries under review and when developments in one of these industries impaired the general price restraint program, appropriate solutions would be sought.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the Heads of Government endorsed the Commission's plan. Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.



## BEVERAGE PRICES IN FEDERAL GOVERNMENT EATING FACILITIES

### Introduction

On Aug. 17, 1970, prices for coffee, tea and soft drinks were increased in Canadian Government eating facilities. The Prices and Incomes Commission initiated a review of these increases on Aug. 20.

### Background

There are nearly 1,000 eating facilities in federal government buildings across the country. They are operated in accordance with Treasury Board policy which is administered by the Department of Public Works.


Eating facilities are grouped into four categories which are defined as follows, with the number of establishments in each group indicated:

#### a) Cafeterias

- 33 premises fully equipped for the serving of hot and cold full-course meals.

#### b) Canteens

- 88 canteens equipped for the heating of foods prepared off the premises, for the preparation of hot beverages, and for the sale of unheated foods (e.g. sandwiches, pies, packaged confectioneries).



Digitized by the Internet Archive  
in 2023 with funding from  
University of Toronto

<https://archive.org/details/31761119734671>

c) Snack Bars

- 14 booths or stands for the sale of unheated packaged foods and confectioneries, as well as milk, soft drinks, cigarettes, etc.

d) Lunchrooms

- 846 lunchrooms equipped with tables and chairs in which employees may eat food brought into the premises but in which no food is sold.

Regulations govern such matters as premises, equipment, tendering, menus and quantities, prices, sanitation and hours of operation. Each facility's financial records are audited by the Audit Services Bureau of the Department of Supply and Services.

Since catering is involved in only (a), (b) and (c) above, this study was limited to these three types of facilities.

Government facilities are similar to those found at most other public institutions and large private companies. Heated and decorated premises are provided by the employer, together with service counters and certain major items of equipment in the largest facilities. Generally the operators supply cleaning service, cutlery, utensils, linens and other operating supplies.

The majority of catering contracts in non-government establishments are let on a management fee basis. In other words, a caterer operating a cafeteria at a private company has his fee guaranteed (usually a percentage of sales averaging at least six per cent) and the operating loss, if any, is made up by the company.



By contrast, a catering agreement with the Government requires the caterer to operate within prices set by the Department of Public Works while also limiting profits to not more than six per cent of sales in any one facility.

A dozen catering firms have contracts to operate in Government facilities across the country. Three of these firms cater in operations having 84 per cent of the total seating capacity and which comprise 85 per cent of all such facilities by number. The Commission confined its study to these three companies in view of their predominance. They are, in order of magnitude, the catering division of the Canadian National Institute for the Blind (now known as Caterplan Services); Canada Catering Co. Ltd.; and Lorne Murphy Foods Ltd. While government cafeterias comprise all of the business of the last-named firm, the other two companies have other interests.

### Prices

The Department of Public Works reviews the entire price list, which contains over 300 items, about every two years. The last full review was completed in July, 1969. The changes which are the subject of this review were made on Aug. 17, 1970, and are as follows:

<u>Item</u>	<u>Price Change</u>
1. Coffee, hot, 7 oz.	from 10 - 15 cents
2. Soft drinks, 9 oz.*	from 10 cents to prevailing retail price
3. Tea, hot, 7 oz.	from 10 - 15 cents
4. Tea, iced, 12 oz.	from 15 - 20 cents

( \* increased from 7 oz.)



At the same time a higher grade of coffee was stipulated. The last major increase in coffee beverage prices occurred about 10 years ago.

Beverage prices had been raised to 15 cents, and sometimes 20 cents in most commercial establishments. In part, the price increases for beverages probably reflect the fact that sales of these items are less sensitive to price changes and to longer-run fluctuations in consumption than are meals. Also, the existence of vending machines, with their inability to handle coins other than in multiples of five cents, made less than a five-cent increase difficult where vending machines are employed.

It was decided to increase the prices of beverages and to leave the prices of meals at the levels prevailing since mid-1969.

#### The Price Review

The Commission requested and received detailed historical data on revenues and costs for six years, together with forecasts for all of 1970. In the case of Lorne Murphy Foods Ltd., the current period extends to their year-end, March 31, 1971.

The base periods considered were calendar 1969 for C.N.I.B.'s Caterplan Services and fiscal 1969-70 for Lorne Murphy Foods Ltd. For Canada Catering Co. Ltd., however, the year 1968 was used as the base period since 1969 was not a normal year for the firm.

Adjustments were made in all cases to bring the current period's forecast volume to normal. That is, the immediate drop in volume due to customer resistance was not allowed to influence the projected results. There were, however, certain long-term changes in sales which had to be considered. It was found that normal movements of government personnel among buildings were significant.



For example, the opening of the new building for the Department of National Revenue (Taxation) removed a considerable volume of business from one caterer. In addition, the current austerity program has resulted in a delay in another move, to the detriment of the firm which is already committed to cater to the new, but partially occupied buildings.

The criteria mentioned in the Foreword require that the increase in revenues be clearly less than the increase in costs. Thus the Commission has compared financial data for 1970 with those for the base period for each company separately. The Commission found that several factors have contributed to significant cost increases in 1970, thereby causing the higher selling prices. The largest cost increase has been in wages, salaries and fringe benefits. These account for roughly 30 per cent of total costs. The industry is typified by wage rates which are close to the local minimum wages in many areas. All three companies are affected substantially by changes which are being made in provincial minimum wage acts. The Commission has found that more than half of the increased revenues during 1970 will be offset by these higher labor costs.

In addition, food costs have risen by about two per cent since the beginning of 1970. Food costs form roughly half of catering costs.

Increases in the cost of paper products are significant to caterers because they use large quantities of serviettes and disposable cups, as well as waxed paper and paper bags. Municipal business taxes have also risen appreciably in 1970, as have cleaning costs which are important in the food-dispensing industry.



The effects of these cost increases, at a normal volume of business, have been to depress the margins of all three companies. One in particular, whose income in 1969 was almost nil, will experience a sizable loss on operations in 1970. The other two will achieve lower profits than during the base period and would have experienced losses had prices not been raised.

#### CONCLUSION

In the opinion of this Commission price increases for beverages sold by the companies reviewed are within the pricing criteria agreed to in February, 1970.

---





